Sustainable Finance – Hoax or necessity. A global perspective

The world is on fire – as Greta Thunberg put it. Though we have “only” reached an average global rise in temperature of 1.2°C compared to preindustrial levels, we already experience dramatic changes: extreme weather events have quadrupled since the 1980ies. If we continue on the current emission path we might cause the earth to warm up by 4°C on average until the end of this century (IPCC, 2019). The resulting storms, droughts, floods, desertification, extreme temperature shifts etc. have fundamental macroeconomic consequences: food inflation is projected to rise, imperilling food security; the destruction of infrastructure, production sites and household wealth as a result of the physical effects of the climate crisis impact balance sheets of countries, firms, households and financial institutions with destabilising effects for the financial system and the economy as a whole; and transitional risks coming with policy decisions to shift towards a low-carbon economy such as the EU’s plan to become carbon-neutral till 2050 yield the risk of *stranded assets* with further destabilising effects (Batten, Sowerbutts and Tanaka, 2020; Bolton *et al.*, 2020).

These developments also affect financial markets, its agents and regulatory bodies. The volume of financial assets classified as environmentally or socially sustainable has jumped from around US$400billion in 2012 to about US$1.300billion in the second quarter of 2020 (Belloni *et al.*, 2020) – a rise by 325%. The Task Force on Climate-related Financial Disclosures (TCFD) was founded in 2015 as result of a G20 summit’s decision to include financial risks in financial regulation frameworks. Institutions like the Network for Greening the Financial System (NGFS) – a conglomerate of different central banks and supervisory bodies – followed in 2017. The worlds’ biggest financial investors such as BlackRock (BlackRock, 2021) and JPMorgan (JPMorgan Chase&Co., 2021) are jumping on the train by promising enormous portfolio restructurings.

Aim of this intensive workshop is 1.) to introduce the participants to the macroeconomic workings of the climate crisis as the background of sustainable finance; 2.) to introduce financial assets with ESG (Environmental, Social and Governance) criteria attached to them and their markets and important institutional players; 3.) to provide a critical perspective on the current setup of sustainable finance; 4.) and to work on in-depth case studies illustrating the workings on ESG-finance markets, its emitters and traders as well as their macroeconomic implications.

Previous knowledge on financial markets is not required. ECTS-points can be collected in this workshop. The workshop will be conducted in English, however, brief explanations can be given in German, too, if needed.

Selected literature:

Here is some introductory material (not necessarily endorsement!):

Readings:

Batten, S., Sowerbutts, R. and Tanaka, M. (2020) 'Climate change: Macroeconomic impact and implications for monetary policy', in Walker, T. et al. (eds) Ecological, Societal, and Technological Risks and the Financial Sector. Palgrave Macmillan (Palgrave Studies in Sustainable Business In Association with Future Earth). doi: 10.1007/978-3-030-38858-4.

Belloni, M. et al. (2020) The performance and resilience of green finance instruments: ESG funds and green bonds. Available at: https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2020/html/ecb.fsrbox202011_07~12b8ddd530.en.html

Bolton, P. et al. (2020) The green swan. Bank of International Settlements; Banque de France. Available at: https://www.bis.org/publ/othp31.htm

Hache, F. (2019) *First policy report – 50 shades of green: the rise of natural capital markets and sustainable finance*. Policy Report Part 1. Green Finance Observatory. Available at: https://greenfinanceobservatory.org/2019/03/11/50-shades/

J.P. Morgan Private Bank (2021) *Sustainable Investing*. Available at: https://privatebank.jpmorgan.com/gl/en/services/investing/sustainable-investing

Gabor, D. (2020) *Greening the European Financial System Three ideas for a progressive Sustainable Finance agenda*. Foundation for European Progressive Studies (FEPS), Roskilde University, University of the West of England (UWE). Available at: https://www.feps-europe.eu/attachments/publications/feps%20paper%20three%20ideas%20gabor.pdf.

Grabel, I. (1996) 'Marketing the third world: The contradictions of portfolio investment in the global economy', *World Development*, 24(11), pp. 1761–1776. doi: 10.1016/0305-750X(96)00068-X.

Löscher, A. and A. Kaltenbrunner (2022), 'Climate change and macroeconomic policy autonomy in developing and emerging economies', *Journal of Post Keynesian Economics*, accessed at https://doi.org/10.1080/01603477.2022.2084630.

Videos:

UNDP: https://www.youtube.com/watch?v=e5VP18E49uo

The Plain Bagel: https://www.youtube.com/watch?v=o0jdjisttys

Preliminary outline

Day 1: Macroeconomics in times of the Climate Crisis

Day 2: Workings of ESG-instruments, financial markets and its big players

Day 3: Greening the financial system: policies and regulations; pros and cons of sustainable finance and of its possible alternatives

Day 4: In-depth case study analyses

Day 5: Buffer day and wrapping up

Day 6: Presentation of group work, feedback round